American Association of Individual Investors (AAII)

San Diego Chapter
Fundamentals of Investing Course
17 Jun 2023

Class # 4

Managing Money in Retirement
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and

LTC (Long Term Care)
by
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https://aaiisandiego.com

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Class 4: 17 June 2023

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Upcoming San Diego Chapter Events

July 8, 2023 (Saturday) @ 9 AM PST: Speaker will be Katie Stockton.

September 9, 2023: (Saturday) @ 9 AM PST: "AAII's Essential Investing Principles and Strategies" by Ray Rondeau, Senior Technical Analyst, AAII

October 21, 2023: (Saturday) @ 9 AM PST: Speaker will be Kevin Carter.

November 11, 2023: (Saturday) @ 9 AM PST: Details TBD.

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Managing Your Money in Retirement
Outline

- Planning for Retirement.
- When can I Retire?
- Retirement Assets.
- Social Security, Annuities, 401(k)s, 403(b)s, IRAs.
- Saving & Investing for Retirement.
- What's my Number?
- Managing Withdrawals in Retirement,
- How Long will my Money Last?
- Unplanned Retirements,
- What I Did.
- Automate Retirement Withdrawals for Income.
- Tax Considerations in Retirement.
- Investing in Retirement.
- Longevity considerations.

Don’t Let Retirement Sneak Up on You (Planning)

- While working, continually assess all your assets and sources of income as you approach retirement.
- Create or follow a Plan like **The AAII Way**.
- As you get close to retirement, create a facsimile paystub to estimate your **net income** – retirement income less required deductions like state and federal taxes and health insurance.
- Have a retirement **net income goal** so you can answer the question: “When can I retire?” Or, “Can I retire now?”
- **Personal Note:** My retirement goal was that my **net income** would be the same after I retired as when I worked, when all sources of retirement income are included.
- Calculate your Number. **What is your number?**

Can I Retire Now? What's my Number?

Sample Calculation.

- Assume your gross income at retirement: $8,000 / mo.
- Assume your net income is 55 % of gross: $4,400 / mo.
- *(Average net for me - 56 % and my wife - 54 %).*
- **Let your net income goal in retirement then be $4,400 / mo.**

Why is this a good way to look at your retirement?

- Your **net income** will be the same when you retire as when working.
- Your financial life is completely independent of your retirement.
- If you can afford to pay a mortgage when working, you can continue to pay that mortgage when retired.
- If you are making a car payment, you can continue with that payment.
- If you are saving for, or paying for college, you can continue to save and / or pay as before.
- You need take no drastic financial measures when you retire.

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(Gross / Net Income at retirement: $8,000. / $4,400. / mo.)

Income Source	Net Amount (per mo.)
Net Social Security*	$2,000.
Net Pensions, Annuities, Buy-outs, etc.	$1,200.
Total Net Income	$3,200.
Shortfall (Need $4,400.)	$1,200.

*Social Security max payments in 2020:
$3,790. (age 70) / $3,011. (FRA) / $2,265. (age 62)

Your **NUMBE**R is then the amount of savings accumulated over your working lifetime needed to produce the $1,200. shortfall in this example, assuming you draw 4 % / yr. from your Retirement Fund** to start:

$1,200. x 12 / 0.04 = $360,000.

**These funds come from your aggregate lifetime accumulations in Roth IRAs, Regular IRAs, 401(k)s, 403(b)s, etc., and ordinary savings.

Social Security Considerations

"Wait for the wisest of all counselors, time." -- Pericles

- Most retirement plans include Social Security starting at 62.
- 62 is considered "Early Retirement" – you don't get full benefits.
- 66/67 is full-retirement age with "full" benefits.
- Monthly benefits increase 8 % per year from full-retirement age reaching a max benefit at 72 (32 % greater).
- These terms make it difficult to retire before 62.
- **Consider your future social security benefits carefully before finalizing any retirement decisions.**
- Obtain an estimate of you're your likely SS benefit as you near retirement.
- Delaying social security payments will increase your ultimate monthly benefit.

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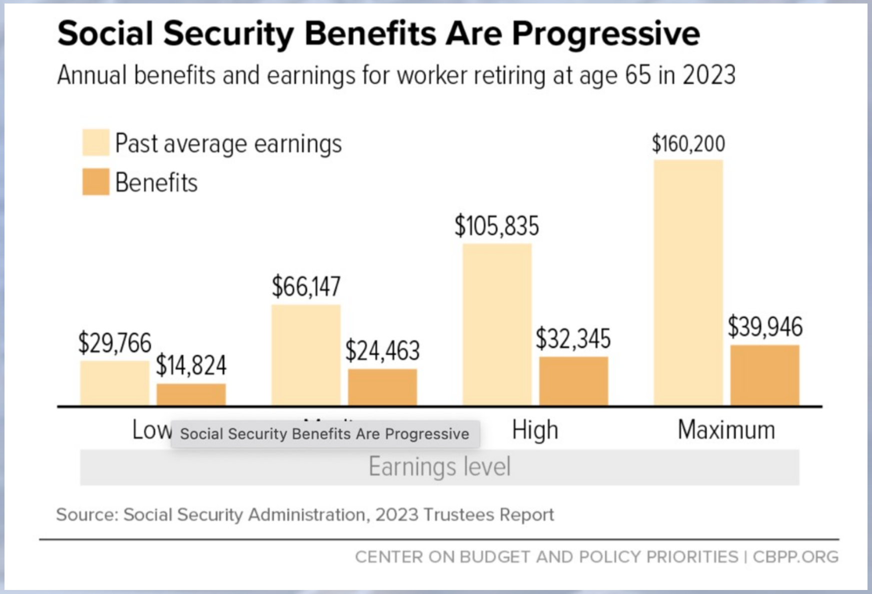
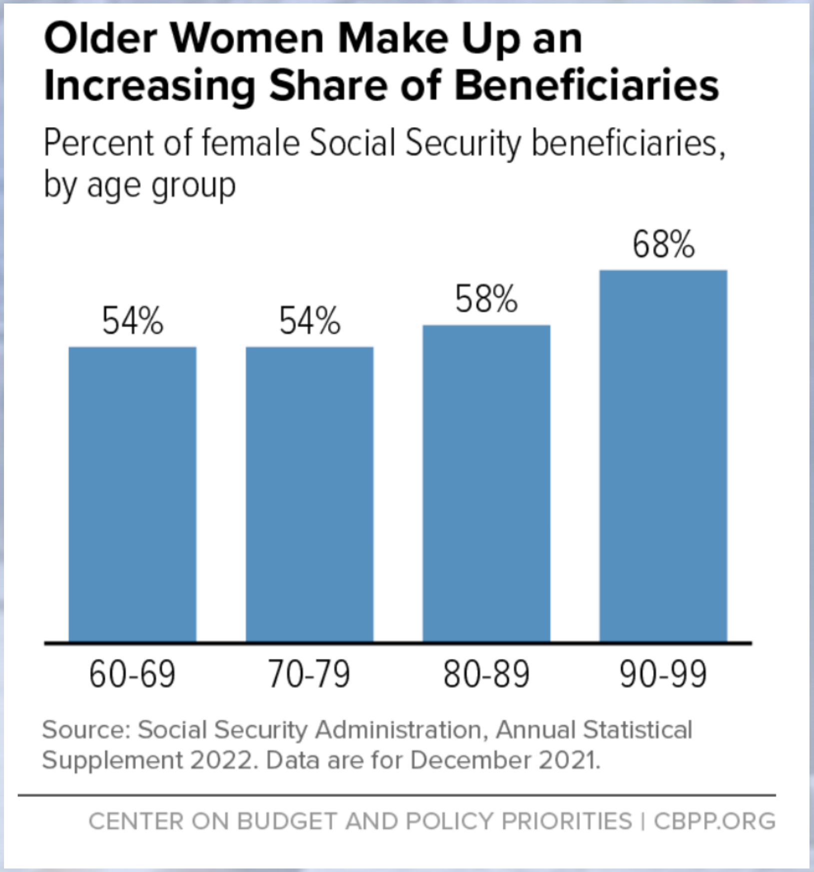
Basic Social Security Facts



- Retirement benefits for a lower earner with 45 % of the average wage, retiring at 65 in 2023, provide $14,824/yr – replacing 50 % of their wages.
- Retirement benefits for a higher earner with 160 % of the average wage retiring at 65 in 2023, provide $32,345/yr – replacing 30 % of their wages.

- The **maximum monthly** Social Security pay out for 2023 is:
  - $2572 if you retire at 62 in 2023.
  - $3627 if you retire at normal retirement age (66/67).
  - $4555 if you retire at 70 or older in 2023.
- But don’t focus on the maximums because:
  - The average Social Security income in Feb 2023 was $1782/mo.
  - Only 10 % of beneficiaries receive > $2600/mo.

Basic Social Security Facts



Social Security is especially beneficial for women because they:

- Earn less than men.
- Take more time out of the workforce.
- Live longer.
- Accumulate less savings.
- Receive smaller pensions.
- Make up 95 % of Social Security survivor beneficiaries.
- Among all beneficiaries in their 90s, over 2/3rds are women.

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Pensions and Social Security are Probably not enough.

"If you want to be wealthy, live below your means." -- Paul Merriman

To get to Your Number, Save and Invest Relentlessly year-after-year and decade-after-decade throughout your working career: (From our 1st class in Mar 2023):

- Focus on living beneath your means so you can . . .
- Save money and invest it relentlessly over time using . . .
- A working knowledge of the financial markets to . . .
- Help achieve your long-term financial goals.

Withdrawals in Retirement

The 4 % Rule is a withdrawal rate Rule of Thumb usually stated as:

- You can withdraw Four Percent of your portfolio each year in retirement for a comfortable life.
- You may increase your withdrawal each year to match inflation.
- It was created using historical data on stock and bond returns over a 50-year period.
- No account ran out of money over any 20-year period with this rule.

- The 4 % Rule is good for planning purposes, and as a starting amount for most people.
- Many feel that it’s too conservative and that you can safely withdraw more.
- So, it is a subjective number that you can think about and adjust to suite your needs.

Withdrawals in Retirement (cont.)

Jones modification to 4 % Rule:

- Pick an initial withdrawal rate (4 % is OK), then
- Each subsequent year, take that percentage, say 4 %, based on your retirement account balance (no inflation adjustment), so
- In a down-market year, you withdraw less the following year.
- In an up-market year, you may withdraw more if you wish.
- This will guarantee that you'll **NEVER RUN OUT OF MONEY**.
- But your spending may have to decrease after a run of down years.
- You'll have to tighten your belt, but you'll have a larger retirement account to build back up.
- IDEALLY, **your retirement funds will grow over time, not shrink,** because the markets yield on average more than 4 %.
- You'll never have to ask, "How long will my money last?"

Christine Benz's Five Lessons to Govern Withdrawals in Retirement

- Starting conditions matter – they're pretty good today.
- Maintain a Balanced Portfolio (30% - 70 %).
- Defend income streams against inflation.
- Consider your personal spending patterns.
- Be flexible if you can afford to (in your annual withdrawal adjustments).

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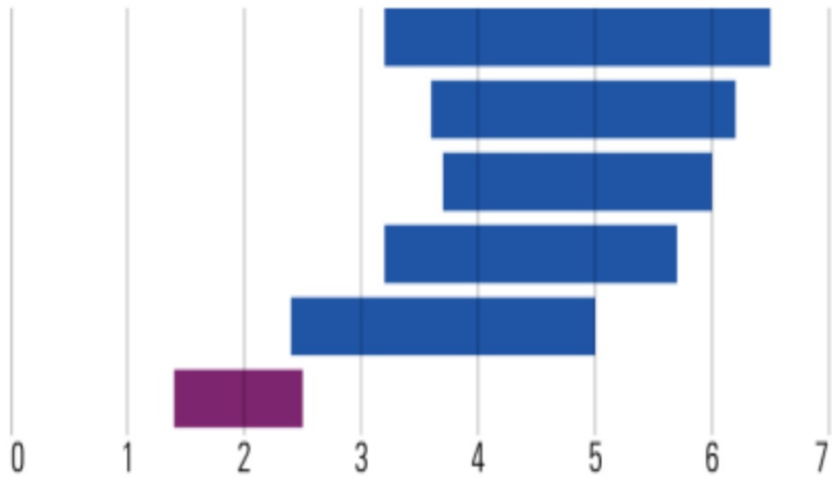
Maintain a Balanced Portfolio

Exhibit 3 Highest and Lowest Starting Safe Withdrawal Rates, by Asset Allocation

(Rolling 30-Year Time Horizon, Starting From 1930 Through 1990, 90% Success Rate)

	Safe Withdrawal Rates	
Asset Allocation	Lowest	Highest
100% Stocks	3.2	6.5
75% Stocks, 25% Bonds	3.6	6.2
50% Stocks, 50% Bonds	3.7	6.0
25% Stocks, 75% Bonds	3.2	5.7
100% Bonds	2.4	5.0
Mattress	**1.4**	**2.5**



Source: Morningstar Direct. Data as of 12/31/2019.

Credit: Christine Benz, Morningstar, presentation to AAII San Diego Chapter on Sat 12 May 23.

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Withdrawals in Retirement (cont.)

"Two of the hardest things to do is save when you're young and spend when you're old." -- Unknown

Sample withdrawal schedules assuming you retired in Jan 2008 - right at the start of the financial crisis (like I did).

Year End	Balance ($) (4 % Rule)	Payout ($) (4 % Rule)	Balance ($) (Jones Rule)	Payout ($) (Jones Rule)	Market Rtn (%) (Total Rtn S&P 500)	Inflation (%)
2007	360,000		360,000			
2008	212,400	14,400	212,400	14,400	-37.00	3.8
2009	253,654	14,947	260,105	8,496	26.46	-0.4
2010	276,967	14,887	288,873	10,404	15.06	1.6
2011	267,685	15,126	283,413	11,555	2.11	3.2
2012	294,905	15,610	317,423	11,337	16.00	2.1
2013	374,487	15,937	407,539	12,697	32.39	1.5
2014	409,578	16,176	447,029	16,302	13.69	1.6
2015	398,795	16,435	435,317	17,881	1.38	0.1
2016	430,039	16,452	469,968	17,413	11.96	1.3
2017	507,251	16,666	553,764	18,799	21.83	2.1
2018	468,018	17,016	507,358	22,151	-4.38	2.4
2019	597,973	17,424	646,831	20,294	31.49	1.8
TOTALS		**191,076**		**181,728**	**10.92**	**1.8**

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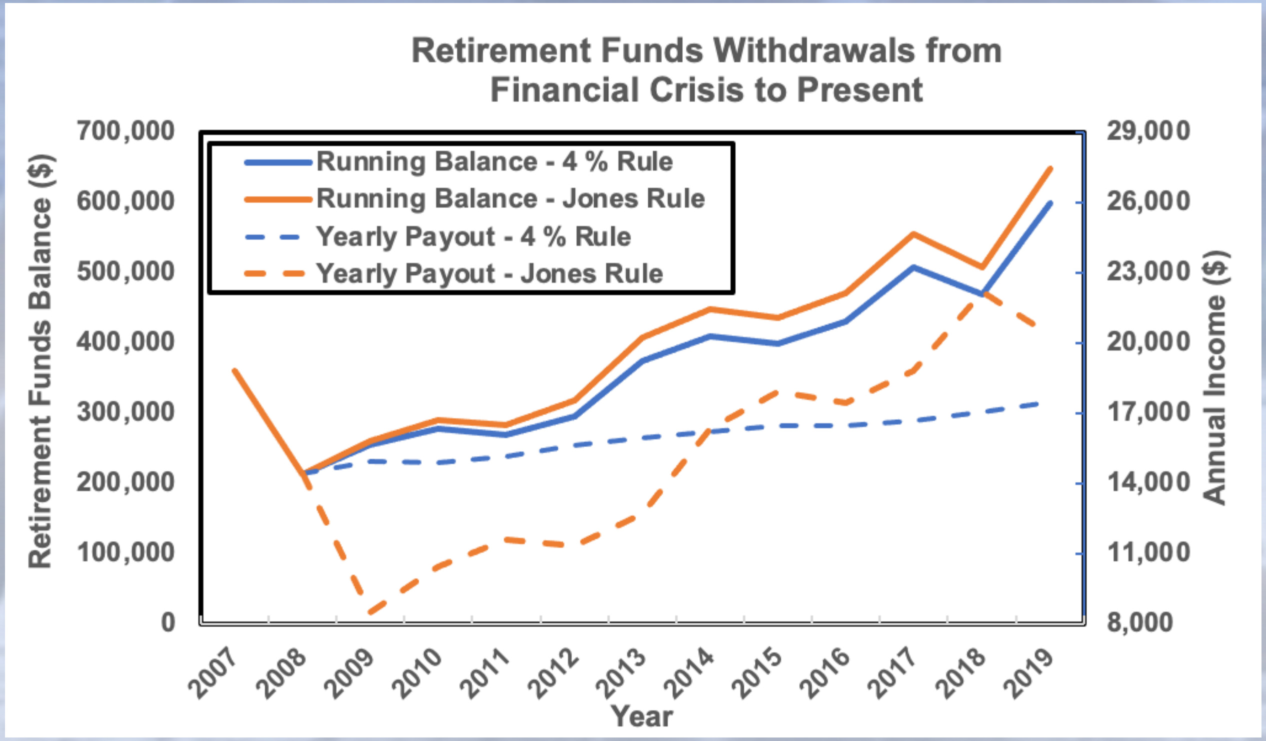
Withdrawals in Retirement (cont.)

Issues with 4 % Rule: If you blindly follow the rule in a down market, your retirement savings can be adversely affected. Consider retiring in Jan 2008 (like me):



S&P 500 Total Returns: https://www.slickcharts.com/sp500/returns

Historical Inflation Rates:
https://www.usinflationcalculator.com/inflation/historical-inflation-rates/

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Sample withdrawal schedules assuming you retired in Jan 2000 - right at the start of the Tech Wreck, and continued through the Financial Crisis up to 2020.

Year End	Balance ($) (4 % Rule)	Payout ($) (4 % Rule)	Balance ($) (Jones Rule)	Payout ($) (Jones Rule)	Market Rtn (%) (Total Rtn S&P 500)	Inflation (%)
1999	360,000		360,000			
2000	312,840	14,400	312,840	14,400	-9.1	3.4
2001	260,754	14,890	263,130	12,514	-11.89	2.8
2002	187,821	15,307	194,453	10,525	-22.1	1.6
2003	226,136	15,551	242,444	7,778	28.68	2.3
2004	234,831	15,909	259,124	9,698	10.88	2.7
2005	230,022	16,339	261,482	10,365	4.91	3.4
2006	249,449	16,894	292,311	10,459	15.79	3.2
2007	245,709	17,435	296,666	11,692	5.49	2.8
2008	136,873	17,923	175,033	11,867	-37.00	3.8
2009	154,486	18,604	214,345	7,001	26.46	-0.4
2010	159,222	18,530	238,052	8,574	15.06	1.6
2011	143,756	18,826	233,553	9,522	2.11	3.2
2012	147,328	19,429	261,579	9,342	16.00	2.1
2013	175,211	19,837	335,842	10,463	32.39	1.5
2014	179,064	20,134	368,385	13,434	13.69	1.6
2015	161,078	20,456	358,733	14,735	1.38	0.1
2016	159,867	20,477	387,288	14,349	11.96	1.3
2017	174,023	20,743	456,342	15,492	21.83	2.1
2018	145,222	21,178	418,100	18,254	-4.38	2.4
2019	169,266	21,687	533,036	16,724	31.49	1.8
TOTALS		**364,547**		**237,188**	**7.68**	**2.2**

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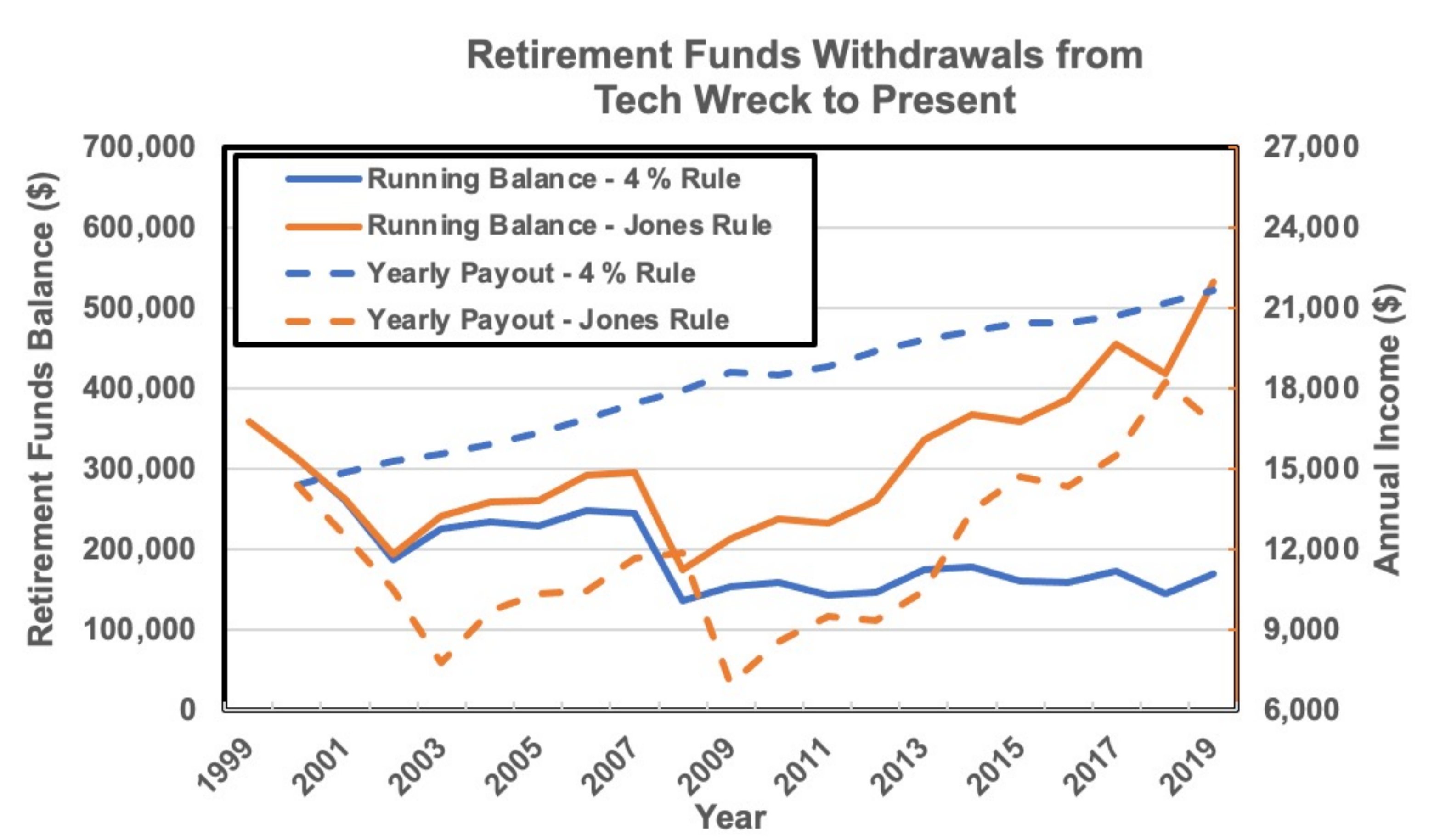
Withdrawals in Retirement (cont.)

"I know of no other way of judging the future but by the past." -- Patrick Henry

20-Yr sample withdrawal schedules assuming you retired in Jan 2000 - right at the start of the Tech Wreck, and continued through the Financial Crisis to 2020.



T.E. Jones

How Long Will Your Money Last?

Case 1. You Plan your Retirement and Retire when you reach your NUMBER.

- If you follow this methodology – withdraw just enough to make up for your shortfall & no more than about 4 % **based on account balance** - your money should never run out in retirement.
- If you have to ask how long your money will last in retirement, you aren’t (or weren’t) ready to retire.

Case 2. You are forced to Retire before you reach your NUMBER.

- Circumstances may dictate that you must retire before you are really prepared – job loss, illness, other personal circumstances – it happens.
- You will have to be creative in approaching a forced early retirement. Some suggestions follow.

What if you can't retire normally in a planned manner?

"The best laid schemes o' mice an' men / Gang aft a-gley." – Robert Burns in "To a Mouse."

- **Options if you own your own home:**
  - ✓ Sell your home and Downsize to something cheaper.
  - ✓ Sell your home and become a renter.
  - ✓ Consider a Reverse Mortgage.
- **Consider an Annuity.**
- **Revisit your employment / career options.**
- **Consult with a financial advisor or counselor to help you calculate how long your available assets would last under varying spending conditions.**

What I actually Did

- I have been retired for over 15 years, the last 7 or 8 years under RMD requirements.
- For the first 10 years or so I withdrew just enough to make up for my “shortfall.”
- Since I’ve been under RMD, I just take the required distribution; I take it monthly.
- That amount is only about 3 % of my retirement assets, so I’m in the black and my retirement funds increase, rather than decrease.
- When my accounts go up, my RMD goes up, and I take more out.
- When the accounts go down, my RMD goes down, and I take less out - like the “Jones Rule” in the examples – I use the RMD not 4 %, but it is very similar (RMD rule also a Christine Benz option).
- I retired in Jan 2008 – worst time -- accounts dropped about 40 %.
- Since then, my retirement funds have more than doubled even though I take income out every month and never add to those accounts, and my RMD more than covers my retirement “shortfall”.

Automate Your Withdrawals

What is income?

- Most of us need to derive income from our retirement funds.
- Income is not limited to cash, or bonds, or dividend income.
- You can also draw income from stocks or mutual funds in the way of capital gains – especially convenient from IRAs because you don't owe any capital gains taxes when you sell inside the IRA.

How I Automate my retirement withdrawals.

- My retirement income now all comes via RMDs from my Regular IRA.
- At the end of every year, I calculate or look up my RMD for the following year from the account balance on 31 Dec.
- I divide that annual RMD amount by 12 to get the monthly.
- I then round up the monthly withdrawal to the nearest round 100 dollars – I like nice round numbers.
- I ensure I have a good-performing mutual fund in my IRA, and then arrange for the required monthly amount of the fund to be sold and the proceeds transferred to my local checking account as if it were ordinary income each month.
- I repeat that process every year.
- This process automates my withdrawals, and it is completely free – there are absolutely no charges from my Fidelity acct. for me to do this.

Minimize Taxes and Fees.

Qualifying (Tax Free or Tax Deferred) accounts (Traditional IRAs, Roth IRAs, 401(k)s, 403(b)s, etc.)

- Maximize use of these accounts to remove tax considerations in most cases.
- Try to put big dividend payers in these accounts to save taxes.

Nonqualifying (taxable) accounts.

- Strive for long-term capital gains – positions held one year or more are taxed at a lower rate.
- But don't hold a losing position just to save taxes.
- Capital gains/losses usually take precedence over tax considerations.
- Harvest losses in Dec each year to save taxes – sell at year end and rebuy later after 30 days if desired.

Investing in Retirement

- Based on actuarial data upcoming, you should plan on investing for the long haul in retirement – at least 20 years.
- In my humble opinion, given your anticipated longevity, you should invest just like you did while working.
- I invest my retirement account in the same manner that I invested my regular funds while working, and my non-retirement assets now.
- If you're investing style was successful while working, I suggest you continue to invest the same way in retirement; it's what you know.
- I would not recommend taking an ultra conservative approach like going to cash, under normal market conditions.
- One of the most common retirement mistakes, I believe, is being too conservative in retirement. **You always want to have your money working for you harder than inflation is working against you.**
- If you've gotten where you are with no investment experience, then consult with a financial advisor before embarking on the second half of your life.

Interesting Actuarial Facts about Longevity in the U.S. in 2022

- A man reaching age 65 today can expect to live, on average, until age 83.
- A woman turning age 65 today can expect to live, on average, until age 86.
- About 1-in-3 65-year-olds will live past 90.
- About 1-in-7 65-year-olds will live past 95.

Reference: https://www.ssa.gov/planners/lifeexpectancy.html

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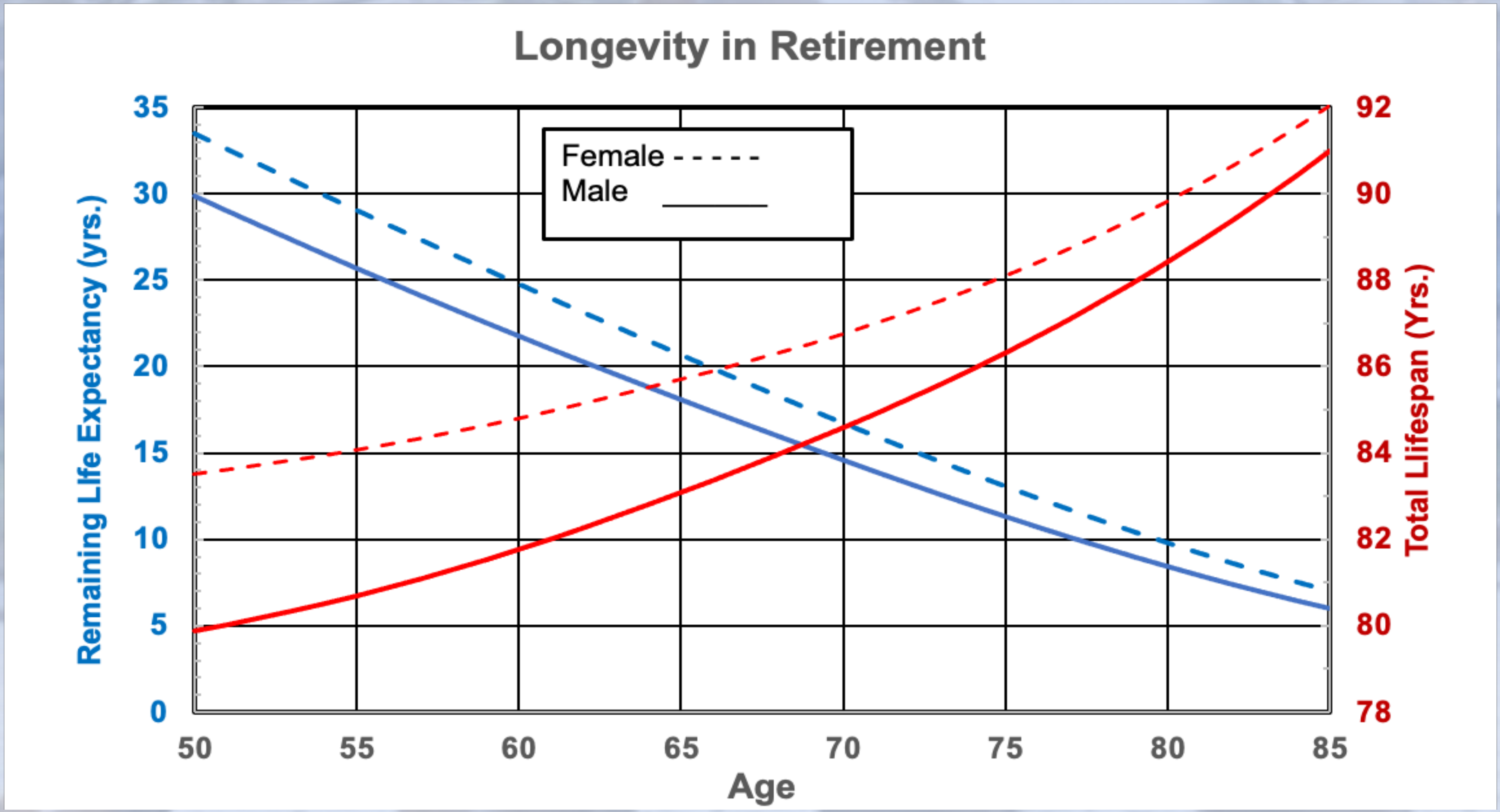

Periodic Life Table 2019, as used in 2022 Social Security report.
Reference:
https://www.ssa.gov/planners/lifeexpectancy.html

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Closing Notes

Most of these points were discussed during this presentation:

- *SAVE AND INVEST RELENTLESSLY* during your working years so you will have the retirement funds to make-up for the shortfall between your pensions / Social Security income and your net working salary.
- *DON'T BE TOO CONSERVATIVE* in your retirement investments because you're likely to be around for a long time.
- Ensure that you control your withdrawals so that you will *NEVER RUN OUT OF MONEY* in retirement.
- *RESIST THE TEMPTATION* to use your retirement funds for any other purpose! Don't treat it as a piggy bank, but as a source of life-long income.
- You don't have to spend all your RMD funds. The law simply says you must remove funds from the IRA and pay your deferred taxes, but you don't have to spend that money. You can still save the excess (I do).

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Investing in Individual Stocks (Planned for Class 5)

- Who should invest in individual stocks?
- How much should you invest?
- Stock Selection Methodologies.
- Diversification.
- Managing a stock portfolio.
- When to Sell.
- Limiting / Controlling losses.
- Preserving gains.
- Pitfalls to Avoid.
- Taxes.